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International Economic & Energy Weekly [redacted]

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10 May 1985

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International Economic & Energy Weekly

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The economic downturn as a result of declining oil revenues is causing a shift in the composition and sectoral employment of foreign workers, but Riyadh's efforts to limit the number of expatriates in the country have met with only limited success. Saudi Arabia will continue to rely on expatriates for about half its work force into the next decade because their presence is essential to the country's economic growth and productivity. 25X1

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Perspective

IMF Conditionality: Compliance and Political Fallout [redacted] 25X1

In our judgment, the financial community's primary demand on LDC debtors this year has shifted from simple adoption of an IMF standby agreement to vigorous compliance with economic performance targets. Nearly 90 percent of IMF drawings—compared with only about 75 percent in 1983—are now tied to strong economic policy conditions, and we believe the IMF is monitoring debtors' economic adjustment efforts with closer scrutiny and greater resolve. Moreover, compliance with IMF conditionality—the key to obtaining official reschedulings and new money commitments from banks—is becoming an increasingly important factor in pledges of bilateral and multilateral assistance as well. In light of a seemingly endless string of missed performance targets, the Fund must exact some degree of economic adjustment from debtors if it is to maintain its credibility with the banking community. [redacted] 25X1

The IMF is in the delicate position of trying to maintain the cooperation of both debtors and creditors to ensure an orderly international adjustment process. This greater emphasis on compliance, however, could lead to greater levels of political unrest in the short term. Conditionality by the Fund and foreign creditors is often resented by domestic groups—performance targets typically involve a decline in living standards through cuts in subsidies and other government spending—and can serve as a rallying point for opponents of the government. Demonstrations and strikes have been commonplace in countries such as Jamaica and the Dominican Republic, where a halfhearted commitment to adjustment has resulted in little or no economic improvement. This year Argentina and the Philippines could face similar problems as their governments strive to qualify for needed debt restructuring. [redacted] 25X1

Over the longer term, we believe the linkage between economic compliance and political stability hinges heavily on the ability of the government to implement and adhere to a comprehensive adjustment program. If such a program can produce tangible economic benefits, serious political unrest often can be avoided. For many LDC debtors, however, austerity measures will be watered down in the face of domestic opposition. Few economic benefits will be realized, and, as the difficulties of austerity drag on, the potential for unrest heightens. Countries that choose to postpone austerity measures risk the loss of needed IMF funding and debt relief and leave themselves open to worsening economic conditions. This would lengthen the adjustment process and increase the likelihood of more serious and prolonged political instability. [redacted] 25X1

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Sudan: The New Regime's Economic Dilemma

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Sudan's interim government faces a staggering array of economic problems—the legacy of years of mismanagement and, more recently, drought and civil war. While attempting to cope with depleted stocks of food, fuel, and spare parts and an economy that has been at a virtual standstill since the April coup, Khartoum's new leadership must also begin implementing rigorous economic austerity and reach agreement with the IMF over its arrears.

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The recent end to a yearlong partial freeze on foreign financial assistance is providing desperately needed foreign exchange but will not resolve the regime's economic problems, even in the short term. To revive the moribund economy, Khartoum will also need to modify debilitating foreign exchange rules and export practices as well as instill private-sector confidence in its economic policies. Recent statements by the new leadership suggest, however, the regime will move very slowly toward introducing further reforms and will, instead concentrate its efforts initially on governmental reorganization. A noticeable bias against the IMF among civilian policymakers may also present problems in dealing with the arrearages issue and could even lead to circumventing previously agreed-upon reforms.

Immediate Tasks

The new government is giving highest priority to the reestablishment of adequate food and fuel stocks, particularly in the Khartoum area. Although the Sudanese economy has had chronic shortages, the supply disruptions in the three months preceding the coup were unusually severe. The Nimeiri regime's outlawing last February of the private, or free, foreign exchange market contributed to the shortages. Traditionally, this market has served as the major conduit of remittances from Sudanese working abroad. It also provided financing for most nongovernment imports.

Sudan: Current Account Balance [a] *Million US $*

	1982	1983	1984 [b]	1985 [c]
Current account balance	**−769**	**−566**	**−647**	**−565**
Trade balance	−943	−656	−653	−650
Exports	573	732	675	600
Cotton	175	344	310	250
Imports	1,516	1,388	1,328	1,250
Net services	174	90	6	85
Remittances	415	380	350	300
Other (including interest payments)	−241	−290	−344	−215

[a] Fiscal year data beginning 1 July of the stated year.
[b] Estimated.
[c] Projected.

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The government reportedly is making some progress in easing supply disruptions. Drought-related famine remains serious in much of rural Sudan, but we do not view this issue as a serious threat to the regime's stability. Sudanese Government officials claim there is sufficient flour and wheat available or in shipment to satisfy requirements through July. 25X1

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Resumption of foreign financial assistance has been instrumental in alleviating some shortages. Saudi Arabia's timely delivery of 100,000 tons of petroleum beginning in April, together with an additional $50 million in Saudi balance-of-payments support and $67 million in US assistance, has temporarily eased public-sector foreign exchange constraints. In recent weeks the long lines at filling stations in Khartoum have begun to dissipate, and the government has eased its draconian gasoline

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Sudan: External Debt Service Obligations in 1985 *Million US $*

	1984 Arrears	Obligations Falling Due in 1985	Total
Total	**234**	**1,251**	**1,485**
Multilateral institutions	167	282	449
IMF	55	168	223
Bilateral creditors	67	627	694
Commercial banks	0	342	342

rationing system. The new government's adherence to the Petroleum Facility—a financing mechanism sponsored by the United States and Saudi Arabia and designed to reduce the cost and regularize the delivery of oil imports—should reduce the likelihood of crippling energy shortages in the future.

Despite improvements in the supply situation, we believe it is essential to quickly reintroduce a legal, private foreign exchange market. Even if the new regime establishes and maintains an attractive official rate for foreign exchange, the private market will likely remain the most efficient mechanism—and the one most trusted by Sudanese abroad—for converting remittances, which provide one-third of Sudan's foreign exchange earnings.

Strains in Relations With the IMF

The new government's relationship with the IMF will be tested as compliance with IMF-supported reforms and the payment of arrearages conflict with the regime's desire to ease economic hardships. Problems with the Fund began in 1984, when a standby agreement was suspended as a result of Khartoum's failure to make repayments on schedule. The confrontation with the IMF also led to suspension of IBRD Consultative Group and Paris Club reschedulings and, most important, a major slowdown in disbursements of financial assistance from most major donors. As a result, the Nimeiri regime agreed in March to adopt most of the reforms suggested by the IMF. These included:

- A 48-percent official devaluation and adoption of a floating bank rate of exchange.
- Adjustment of domestic prices to reflect the new official exchange rate including a 66-percent increase in gasoline prices and a 33-percent increase in the price of bread.
- Substantial tax increases and budgetary cuts. Following adoption of these measures, the IMF endorsed Khartoum's policies, with the proviso that all arrearages be settled by the end of 1985. This qualified endorsement set the stage for a resumption of foreign assistance.

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The major elements of the reform package are intact, although the new regime has maintained the rollback in bread, cooking oil, and soap prices made in the final hours before Nimeiri's fall. The chairman of the Transitional Military Council has publicly stated that the economic austerity program would be kept in place. Nevertheless, there is reason to doubt the willingness of the new economic players to maintain the austerity program and repay arrearages. The civilian interim Prime Minister has publicly stated that Sudan's relationship with the IMF would be "closely scrutinized." The Finance Minister characterized the former government as "the stooge of the IMF" and warned the US Ambassador that pressure by the IMF and other donors would be a mistake. Although formal rejection of the austerity program is unlikely, the new government may drag its feet and not adjust prices sufficiently to reflect changes in exchange rates and inflation. It could also interfere with commercial bank regulation of the floating rate of exchange or refuse to adopt budgetary restraints previously agreed upon.

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Repayment of arrears to the IMF will remain the most intractable problem. By the end of May, Sudan will probably still owe $133.5 million to the

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IMF. The Sudanese are highly unlikely to meet these obligations without significantly increased financial aid. To use assistance currently allocated for balance-of-payments support to meet IMF payments would diminish the already tenuous prospects for economic recovery. The Fund's flexibility on rescheduling is severely limited by its own statutes, which prohibit any new program for a member currently in arrears. Nevertheless, the IMF's forbearance on repayments, at least until the new regime is better able to cope with the issue, may prove critical in how Khartoum ultimately handles the arrearages problem. [redacted]

Export Reforms Required

We believe additional reforms are needed to sustain economic recovery. One area particularly in need of change is cotton sales, which generate nearly half of Sudan's export earnings but have been badly depressed in recent years by the confusion and corruption surrounding the marketing of the cotton crop. The loss of earnings through such practices, as well as sheer waste, (600,000 bales of cotton from last year's crop remain rotting in warehouses) is a major contributor to Sudan's current financial difficulties. A marketing arrangement, similar to the petroleum facility, would probably satisfy international cotton dealers and boost export earnings. [redacted]

Finally, export disincentives would have to be eliminated. Current policies stipulate that 100 percent of export earnings be deposited in the Bank of Sudan and exchanged at the relatively unfavorable official rate. This rule has caused the government to lose significant hard currency earnings as dealers have either withheld supplies of exportable goods, awaiting changes in the law, or smuggled them out of the country. [redacted] 25X1

Economic Prospects: The Political Dimension

Sudanese economic prospects beyond the next six months hinge to a large extent on settlement of the insurgency in the south. Resolution of this conflict would permit exploitation of oil resources that would ease substantially the foreign exchange shortages, and completion of the Jonglei canal project that would increase the water available for agriculture. Currently, both projects are suspended because of security threats to the Western firms involved. [redacted] 25X1 25X1

The ideological preferences of the new government leaders present further uncertainties. Although Islamization of the banking system appears momentarily to have lost its appeal, a resurgence of Islamic legislation could further sour investor confidence. Another factor is the new leadership's perceptions about the role of government. Many of the economic reforms enacted or contemplated require a willingness to limit government controls and to allow greater freedom for private-sector initiatives. Unfortunately, despite privatization rhetoric, the mind-set of most Sudanese leaders, military and civilian alike, is probably more attuned to greater central control of the economy. [redacted] 25X1

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The Caribbean: A Global Perspective

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The Caribbean: Coping With Prolonged Austerity [redacted]

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A significant improvement in the Caribbean area's deep-seated economic slump is unlikely any time soon. A number of Caribbean governments have evinced in recent years a more rational approach to economic decision making, but backsliding on needed economic adjustments is likely as national decisionmakers try to juggle the competing demands of influential interest groups. Sporadic protests like those in the Dominican Republic, Jamaica, and Haiti over the past year are likely to recur there and possibly to emerge elsewhere. Growing frustration with falling standards of living also could give opposition groups—as well as Moscow and its surrogates—new opportunities to broaden their influence. In these circumstances, pleas for US aid are increasingly likely. [redacted]

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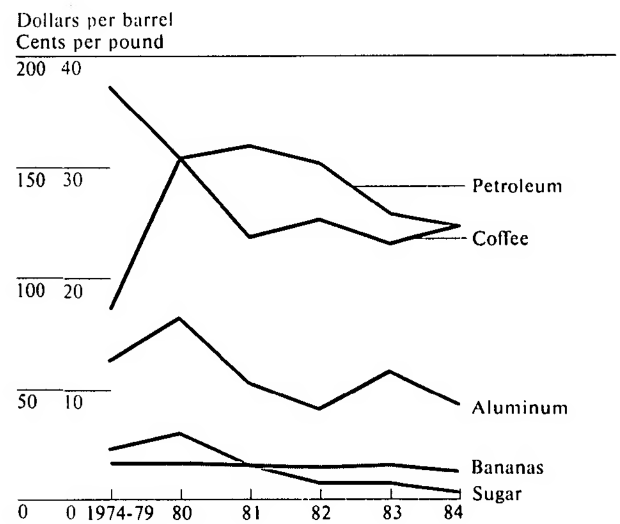
The Caribbean: Real Prices[a] of Major Exports, 1974-84



[a] Based on 1980 prices.

[redacted]

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The Current Scene

The Caribbean area has posted no economic growth since 1981. This is largely because the region's main exports—bauxite, alumina, and agricultural commodities—have been hurt by low world prices and growing competition from alternate suppliers. Caribbean oil refineries and transshipment terminals also have lost business primarily because of excess US refining capacity. Moreover, tourist earnings have picked up only slightly. Although the region's $7 billion external debt is minuscule by Latin American standards, debt servicing has become ever more burdensome for many Caribbean countries. Unlike in earlier periods of economic stress, the region's wealthier economies have been unable to buoy the poorer ones by serving as local markets, aid donors, and magnets for jobseekers. [redacted]

Individual country's reactions to these trends have been mixed. Jamaica, the Dominican Republic, and Haiti—where 80 percent of the region's population lives—turned to the IMF for help. US Embassy reporting shows that these countries have improved tax collection, trimmed and redirected the bloated public sector toward more productive investments, raised interest rates to encourage domestic savings, and stimulated the search for foreign investment. Nevertheless, the failure of potential international commercial lenders to respond adequately to the IMF lead has undermined economic revitalization. Other countries in the region have cast about for different solutions, probably hoping to avoid implementing harsher austerity measures. [redacted]

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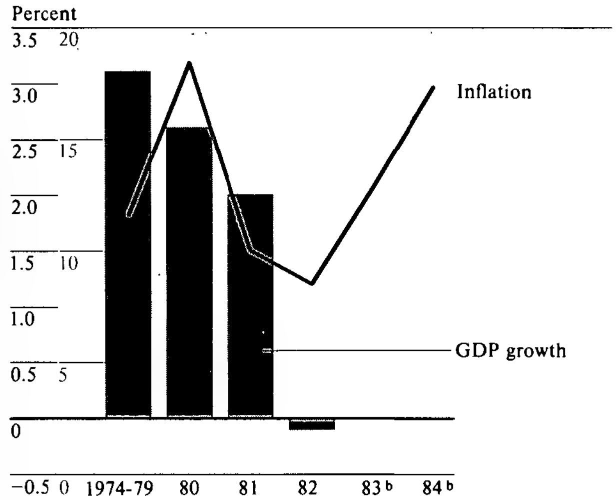
The Caribbean: Weighted Average Real GDP Growth and Inflation, 1974-84[a]



[a] Excludes smallest islands for which data are incomplete.
[b] GDP growth in 1983 and 1984 was zero.

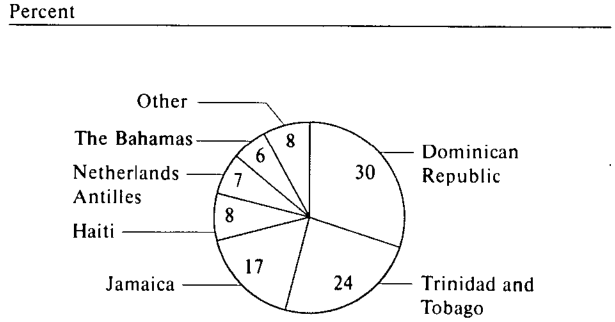
With or without IMF-supported programs, protracted austerity has cost several Caribbean governments a good deal of political capital. Public discontent over austerity has triggered violent protests in Jamaica and the Dominican Republic and has driven support for their leaders to record lows. The pervasive stagnation has further undermined the government-to-government cooperation needed for areawide economic solutions.

Near-Term Outlook

We see little or no improvement in the region's economic conditions over the next several years:

- World demand for Caribbean bauxite and its derivatives will continue to deteriorate in the face of such low-cost substitutes as ceramics and plastics.
- Demand for Caribbean sugar, coffee, and bananas will remain weak because of a world oversupply, and, in the case of coffee, better quality available from other producers.

The Caribbean: GDP by Major Contributor, 1981



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- The depressed world oil market will encourage US firms to close unprofitable Caribbean oil operations. 25X1
- Any gains from tourism will be unevenly distributed and unlikely to match the boom levels of the early 1970s. 25X1

Against this backdrop, the process of economic adjustment will not be easy. Long-term measures—such as moving away from traditional exports, raising domestic interest rates, cutting consumer subsidies, and streamlining bureaucracies—will compound domestic hardships over the short run. Moreover, there are no guarantees that such austerity measures would revitalize the region's economies. Although long-term growth-generating policies would help attract financing and technical expertise, especially under the Caribbean Basin Initiative (CBI), recovery hinges on finding new markets abroad. 25X1

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Considering these uncertainties, we believe that the immediate costs of adjustments will lead national decisionmakers to back away from these needed reforms. Popular resistance to tougher austerity

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measures in a number of Caribbean countries only underscores this concern. At best, we believe governments already under various stages of IMF adjustment programs will try to maintain reform efforts wherever possible; nonetheless, they, and those countries without IMF programs, are unlikely to institute strong new policy measures.

Even if there are temporary problems, we doubt that ***Jamaica***, the ***Dominican Republic***, and ***Haiti*** will abandon IMF-supported programs altogether. In our opinion, their leaders understand that no single Caribbean economy is large enough or diversified enough to spur economic recovery alone, and that, without a workable IMF program, other international lenders would be unlikely to offer more than token help.

Unaccustomed to hard times, the oil-dependent economies of ***The Bahamas, Trinidad and Tobago,*** and the ***Netherlands Antilles*** will continue to delay slashing imports and government spending because they are unwilling to risk the political backlash. Barring an unexpected pickup in the world oil market, such foot-dragging will eventually require even more onerous adjustments.

Other countries face intractable problems. We believe the leaders of ***Suriname*** and ***Guyana*** will continue to resist efforts to revamp their economies to avoid jeopardizing the perquisites of the military and other key interest groups, thereby precluding IMF accords. In ***Grenada***, the government will have to deal quickly with the island's 30-percent unemployment rate and deteriorated infrastructure that is discouraging investors. Other smaller economies such as ***St. Christopher and Nevis, and St. Vincent and The Grenadines***, even with successful policy reforms, are not viable without indefinite infusions of aid.

Political Obstacles

The political climate will make economic policy changes more difficult in the coming months. In addition to setting back adjustments, bickering among ruling party leaders, alienation of key interest groups, and the growing influence of opposition parties could touch off disruptive incidents in several countries. Differences among governing elites over economic policy, in the extreme, could turn economic crises into political ones. This is largely because the highly personalistic nature of Caribbean politics has resulted in fragile intraparty cohesion. Consequently, we expect most elites, in charting economic strategy, to take directly into account the need to preserve party harmony even if it means undercutting sound economic policies. 25X1 25X1

Meanwhile, continued economic woes are likely to cause important interest groups, particularly organized labor, to step up resistance to belt-tightening. Recent sporadic strikes and demonstrations in the major Caribbean countries underscore labor's reaction to policies perceived as detrimental to its interests. Moreover, support from the middle class and the business community appears to be flagging as these groups become increasingly frustrated with the fall in living standards. 25X1 25X1

Opposition parties, although tarred in a number of countries by their poor economic policies when they were in power, are likely to gain as dissatisfaction over austerity grows. Moderate parties, especially those in the English-speaking Caribbean, appear best positioned to take advantage of mounting popular discontent. Leftist parties are struggling to expand their popular appeal, but so far only the leftist-dominated coalition in Dominica appears capable of mounting a strong challenge in coming elections. 25X1 25X1

Coping With Threats

We believe that growing economic problems will increase the chances for violence, especially if decisionmakers inadequately prepare public support for austerity measures. The ability of Caribbean security forces to handle domestic unrest, however, varies widely. Although security forces throughout the region probably can control sporadic disturbances, widespread violence could quickly overwhelm military capabilities even in larger countries. 25X1 25X1

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US Economic Relations With the Caribbean

Over the years, the United States, the principal economic actor in the region, has assumed an ever larger role as former European colonial powers have attempted to reduce their economic support to the region:

- *The United States is the Caribbean's largest trading partner. In 1983 the United States bought more than 80 percent of total Caribbean exports to the West, purchasing the lion's share of foodstuffs (including coffee, cocoa, and sugar), manufactures (including chemicals, light machinery, and consumer goods), raw materials (especially metals), and petroleum products. The United States also provided more than 50 percent of Caribbean imports from the West, primarily raw materials and fuel.*

- *Net US direct investment totaled about $2 billion in 1983. Most US equity is centered in the petroleum and bauxite and alumina industries and is dominated by several large US corporations—Texaco, Exxon, Reynolds Metals, and Alcoa, among others.*

- *US commercial bank exposure stood at $3.5 billion at the end of 1983, including US balances at offshore banking centers in The Bahamas, Bermuda, British Virgin Islands, and the Netherlands Antilles. Even excluding these balances, the United States still accounted for more than 35 percent of commercial bank loan balances in the region.*

- *Of the $485 million in OECD commitments of official development aid to the region in 1982, the latest year for which complete data are available, the United States accounted for 55 percent of the total. Washington contributed more than 80 percent of aid committed to the Dominican Republic, 72 percent to Jamaica, and 48 percent to Haiti. Moreover, the United States, as a major contributor to the IMF, the World Bank, and the Inter-American Development Bank, also has been a significant source of multilateral support.*

The situation presents some potential for exploitation by Moscow and its allies. In addition to providing funds, training, and political guidance to a wide variety of leftist groups, Cuba and the USSR are trying to strengthen ties with the leftist-leaning regimes of Guyana and Suriname. They apparently view Guyana as the best available hope for rebuilding their position in the area in the wake of the Grenada debacle. Reflecting their narrowed political options and realization of labor's strong clout in the region, the Soviets and Cubans are stepping up efforts to improve ties with trade unionists. They also are trying to improve relations with some pro-Western countries through trade and cultural contacts. 25X1

As part of Libyan leader Qadhafi's broad efforts to undermine US influence, Tripoli is pursuing a more active campaign in the Caribbean. Unlike the Cubans and Soviets, Libya is trying to prod leftists, particularly in the French Antilles, into more confrontational tactics. Tripoli's leverage over most Caribbean leftists appears limited, however, and we believe leftists will continue to resist radical tactics because of their concern over public rejection and, in some cases, fear of government retaliation. 25X1

US Interests

The Caribbean area's grim economic prospects and the pressures such conditions are putting on regional governments portend increased pleas for help from Washington. We believe many area leaders who back the CBI—particularly Jamaica's Prime Minister Seaga—will be watching its progress as a barometer of the US commitment to the region. In addition to increasingly urgent requests for concessional economic aid, additional bauxite purchases, and increased security assistance, we judge that Caribbean governments will ask Washington to take a larger hand in prodding the IMF, aid donors, and commercial banks to make new funding available and to deter any substantial US disinvestment in the region. 25X1

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As economic troubles in the region persist, illegal migration to the United States is likely to pick up, especially from Haiti. Narcotics-related activities also will increase and spread to new areas. In these circumstances, we believe tensions between Washington and many Caribbean nations will increase even though their governments generally will remain pro-US. 25X1

In the unlikely event that the region's economic difficulties lead to widespread political instability, the chances for the emergence of leftist regimes opposed to Washington and its policies would grow. US and other foreign-owned firms might become targets for nationalization, and the Soviets and their surrogates would have new bases for regional adventurism. The failure of the small English-speaking islands to form a quick-reaction security force raises the chances that Washington might be called on to help prevent another leftist takeover.

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Zimbabwe: Delaying Tough Economic Choices

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Despite the lingering effects of its recent drought, Zimbabwe probably will register about 3 percent real growth in 1985 following three years of declining GDP. Economic optimism has grown with the return of normal rainfall, although Harare still faces several difficult choices between policies needed to sustain the economic recovery and a commitment to redistribute national wealth. Prime Minister Mugabe appears determined to impose his vision of African socialism, but probably is realistic enough to backtrack temporarily to secure a new IMF agreement and to shore up Zimbabwe's finances. In any case, he is likely to delay tough economic choices until after the national elections scheduled for this June.

Zimbabwe's Inheritance

At independence in 1980, Zimbabwe inherited both considerable economic potential and the problems typical of developing nations. The country possesses significant mineral wealth—including chrome, asbestos, copper, gold, and coal—and a robust agricultural sector that exports beef, corn, cotton, and tobacco, and, in years of normal rainfall, meets domestic needs for nearly all food crops. As Rhodesia, the country diversified manufacturing and food production under the impetus of UN sanctions that partially isolated it from international trade from 1965 to 1979. As a result, Zimbabwe's exports are broadly based, with no single commodity accounting for more than one-fifth of export earnings in a typical year. 25X1 25X1

Rhodesian agricultural policies and institutions, however, favored the interests of the country's 5,000 to 6,000 white commercial farmers—who produced three-fourths of the farm output—over the nearly 700,000 black farmers. As a result, Zimbabwe's black rural sector is largely undeveloped at a time when the country's population is growing at a rapid 3-percent annual rate. 25X1

Socialism in Theory and Practice

Three years of declining GDP have led Mugabe to move cautiously on his socialist program, but his past efforts have added to Zimbabwe's economic strains. After becoming prime minister in 1980, Mugabe publicly committed his government to a massive resettlement program—which now calls for moving 162,000 black peasant families onto underutilized land by the end of 1985. At the same time, Zimbabwe has maintained a favorable economic environment for commercial farming. The government has improved infrastructure and incentives for small-scale, mainly black farmers without damaging those available to large white-owned commercial farms. Producer prices have been raised substantially; the price of corn, for example, more than doubled. Mugabe also pledged an increased government role in the economy, promising greatly expanded educational opportunities, health care, and other social services for blacks. The number of primary school students has doubled since independence, and low-income families now receive free health care. Firms must operate under regulations that limit their ability to fire workers, set their prices, and control their access to foreign exchange. New parastatals have been established for oil procurement and minerals marketing, and the government has purchased controlling interest in several major mining, banking, and pharmaceutical firms. The management of these companies has been left in private hands, however, and Zimbabwe has avoided outright nationalization or major encroachments on private property. 25X1

This ambitious agenda received an initial boost from the lifting of economic sanctions and an influx

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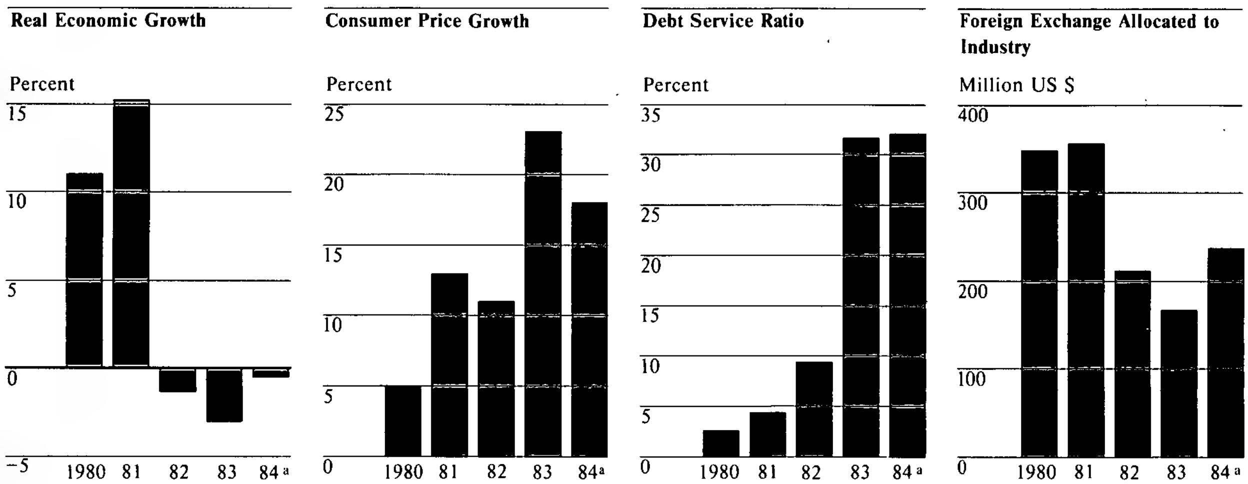
Zimbabawe: Selected Economic Indicators, 1980-84



[a] Estimated.

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of foreign loans and aid, and real annual GDP growth rates exceeded 10 percent in 1980 and 1981. More recently, however, drought and higher costs for agricultural inputs, coupled with low world prices for Zimbabwe's mineral exports, have reduced GDP. 25X1

Moreover, public spending has grown rapidly—from 35 percent of GDP in 1980 to about 45 percent today—and heavy borrowing has pushed the ratio of debt service to export earnings to over 30 percent. Socialist rhetoric by Mugabe and other government officials also has been costly, accelerating the exodus of white managers, skilled workers, and commercial farmers, a major drain of technical expertise. Finally, the rapid growth of budget deficits and the suspension of dividend and profit remittances in 1984 to conserve scarce foreign exchange led to the collapse last year of Zimbabwe's most recent IMF standby agreement. 25X1

Zimbabwe: Agricultural Export Earnings, 1980-84 *Million US $*

	1980	1981	1982	1983	1984[a]
Total	**386**	**547**	**463**	**419**	**472**
Tobacco	179	309	248	224	280
Cotton	89	87	68	73	94
Meat	21	7	6	11	39
Sugar	74	80	69	52	41
Coffee	11	14	19	19	18
Corn	12	50	53	40	0
Percent of total exports	27	39	36	37	39

[a] Estimated.

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Zimbabwe: Balance of Payments, 1981-84

Billion US $

	1981	1982	1983	1984 [a]
Current account balance	**−0.64**	**−0.71**	**−0.46**	**−0.05**
Trade balance	−0.07	−0.15	0.09	−0.20
Exports, f.o.b.	1.41	1.28	1.14	−1.20
Imports, f.o.b.	1.48	1.43	1.05	−1.00
Net services and transfers	−0.57	−0.56	−0.55	−0.27
Capital account balance	**0.49**	**0.60**	**0.25**	NA
Short-term capital	0.38	0.18	0.05	NA
Long-term capital	0.11	0.42	0.20	NA
Errors and omissions	**0.08**	**0.09**	**0.03**	NA
Change in reserves	**−0.07**	**−0.02**	**−0.18**	NA

[a] Estimated.

25X1

[redacted]

Economic Choices

Mugabe faces competing demands of laying the groundwork for a sustained economic recovery and making progress toward socialism. Zimbabwe must first secure additional foreign exchange to ensure sustained growth. Foreign exchange allocations to industry—slashed by half between 1981 and 1983—probably have to be restored to enable firms to secure inputs and replace aging machinery. [redacted]

Zimbabwe needs a new IMF agreement to ease its foreign exchange crunch but are reluctant to impose the cutbacks that this would entail. [redacted] the IMF repeatedly has told Harare that, to secure a new standby agreement, it must cut spending on health, education, and defense. [redacted]

New foreign investment would facilitate more rapid export growth, but the suspension of dividend and profit remittances last year—although reducing Zimbabwe's current account deficit—has further damaged investor confidence. Although we believe that the IMF will push Harare to rescind this suspension, securing new foreign investment probably will require clear guarantees on profit repatriation and nationalization. Moreover, Zimbabwe needs to reduce the regulatory burden to improve the investment climate. [redacted] 25X1

We believe Harare also must reassure its commercial farmers that their position is secure in the face of government proposals for restructuring the agricultural sector. The US Embassy reports that a new land acquisition bill reducing property rights probably will come before Parliament this summer. 25X1
Commercial farmers are concerned over recent 25X1
efforts to nationalize grain milling and over government attempts to speed the lagging resettlement 25X1
program, which to date has moved only about 25X1
35,000 families. [redacted]

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Politics First

Zimbabwe is scheduled to hold elections in June, and until then nearly all major economic decisions will be put on hold. Mugabe and his party, in our judgment, are determined to consolidate their political position by obtaining a sweeping electoral

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victory that can be portrayed as a popular mandate advancing its goal of creating a one-party state. As the elections approach, the government has tried to moderate its radical image. [redacted] 25X1 to appeal to the rural populace and 25X1 business community. A component of this campaign strategy has been to deemphasize the importance of socialism and the one-party state, [redacted] 25X1

25X1

Economic Outlook

Zimbabwe's economy should rebound this year largely on the strength of better agricultural performance and a renewal of IMF funding. Improved corn yields because of better weather are expected to provide a surplus for export of 200,000 to 500,000 tons, compared with imports of more than 250,000 tons for 1984. We expect Harare to reach accommodation with the IMF after the elections by agreeing to cut social spending and resume the remittance of dividends and profits. [redacted] 25X1

Zimbabwe's long-term economic prospects are somewhat cloudier. We believe that Mugabe remains committed to transforming Zimbabwe into an egalitarian society dominated by his party and that his moderation has been largely tactical. The architect of Zimbabwe's pragmatic economic policies, Finance Minister Chidzero, reportedly may leave his government post—mainly for personal reasons—after the elections. The loss of Chidzero could prove a major setback for proponents of gradual reform and a victory for more radical elements of the government, including the Prime Minister himself. [redacted] 25X1

[redacted] 25X1

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Saudi Arabia: Expatriate Laborers There To Stay 25X1

Riyadh's efforts to limit the number of expatriates in the country have met with only limited success. The economic downturn as a result of declining oil revenues is causing a shift in the composition and sectoral employment of foreign workers, but their number is still high. Many Saudis worry that the 3.5 million foreigners employed in their country threaten their Islamic society. Nonetheless, Saudi Arabia will continue to rely on expatriates for about half its work force into the next decade because their presence is essential to the country's economic growth and productivity.

A More and More Expatriates

The large demand for labor generated by spectacular economic growth during the 1970s has continued to overwhelm Saudi Arabia's indigenous labor supply. The Saudi labor force at best can fill only half of the current positions in the Kingdom, and most Saudis lack the requisite training for many of the newly created jobs. Riyadh, therefore, depends on foreign workers to supply the labor needed for the large infrastructure projects and for the petroleum, construction, services, manufacturing, and professional and managerial sectors.

The heavy influx of foreign workers has been a mixed blessing. According to the Embassy, many Saudis resent the behavior of expatriates and see them as contaminating Saudi culture and society. Islamic fundamentalists have expressed concern that foreigners, especially non-Muslims, threaten the Islamic foundation of the state. Moreover, the Saudi Government has been concerned about the expatriate community's potential for subversion.

Pressures on Foreign Workers

Riyadh has responded to these concerns by adopting Saudi-ization measures. The government terminated the contracts of 10 percent of all expatriate employees working for the government in January 1984. Work permits for foreign workers became more difficult to obtain and were transferable only after payment of an exhorbitant sum. Last January the government began enforcing a largely ignored 1969 law that required the Ministry of Labor to certify that no Saudi national was available before a job could be offered to a foreigner. In addition, 25X1
enforcement of strict social and religious restrictions has increased. 25X1

Despite these efforts and the economic slowdown caused by declining oil revenues, the total number of foreign workers has not dropped, and, in fact, has continued to rise, albeit at a slower rate. According to US Embassy estimates, expatriates comprised more than 70 percent of the work force at the end of 1984, compared with 67 percent in 1982. The increase in expatriate laborers arises from the continued growth of the Saudi economy, which, although estimated at only 4.3 percent last year—less than the 1980 rate—still requires an inflow of new workers. Much of the recent growth of the foreign labor force has been in unskilled and semiskilled workers from North Yemen, Bangladesh, Sudan, Indonesia, and Sri Lanka. These poor countries provide a ready supply of workers willing 25X1
to perform jobs considered beneath the average Saudi. 25X1

At the same time, the Saudis have not been able to reduce significantly the number of expatriates who hold skilled jobs, such as Westerners in technical and managerial positions, Pakistani units in the military, or Egyptians in teaching jobs. Although the number of highly educated Saudis is growing—nearly 75,000 Saudis now are studying in the Kingdom's seven universities and abroad—there 25X1
are still severe shortages, and most newly educated Saudis lack the practical experience to replace seasoned professionals. The economic slump, however, has hurt some expatriate communities. As large infrastructure projects were completed, scaled

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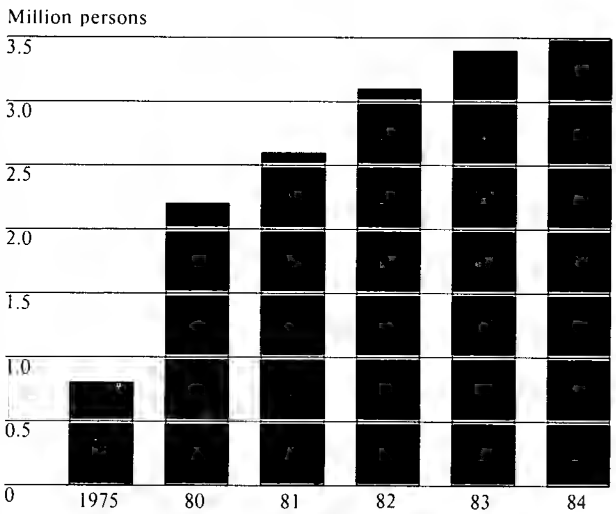
Saudi Arabia: Foreign Labor, 1975 and 1980-84[a]



[a] Estimated.

Saudi Arabia: Current Account, 1982-84

Billion US $

	1982	1983	1984[a]
Trade balance	33.8	7.2	4.3
Exports, f.o.b.	72.8	45.2	39.3
Oil	72.6	44.8	38.4
Nonoil	0.2	0.4	0.9
Imports, f.o.b.	39.0	38.0	35.0
Services and private transfers	−21.0	−21.3	−16.7
Freight and insurance, net	−7.0	−6.8	−6.3
Investment income	16.0	14.5	12.9
Worker remittances	−5.0	−5.0	−4.7
Other service payments, net	−25.0	−24.0	−18.6
Grants	−5.3	−2.0	−2.0
Current account	**7.5**	**−16.1**	**−14.4**
Official foreign assets at yearend[b]	135.0	120.0	105.0

[a] Estimated.
[b] Excludes loans to Iraq.

25X1

[redacted] 25X1

[redacted]

back, or postponed, the demand for foreign workers in the construction sector—which had employed 58 percent of all expatriate laborers—has declined. [redacted]

In some cases, workers displaced in one sector have moved into another. The decline in the number of Filipinos in the construction sector, for example, has been partially offset by an increase in their numbers in the operations and maintenance, manufacturing, and service sectors. The Saudi drive toward self-sufficiency in agriculture also has encouraged some displaced foreigners to seek work as farm laborers. [redacted]

Impact on the Sending Countries

Changing Saudi labor requirements are having an uneven impact on the labor exporting countries. In addition to cutbacks in projects requiring foreign workers, Riyadh is attempting to replace workers from countries with higher wage scales with workers from lower-wage countries:

25X1

- Pakistani workers have been hit hard. Although as many as 500,000 Pakistani workers remain in Saudi Arabia, in 1984 nearly 70,000 Pakistani workers left Saudi Arabia and another 10,000 may have left already this year. Also, many Pakistanis who remained had to renegotiate contracts for lower wages and benefits.

- Saudi Arabia has been the largest overseas market for South Korean construction firms during the past decade. Because of recent cutbacks in construction projects, the US Embassy in Riyadh projects that Korean workers, who numbered 140,000 in 1983 are expected to decline to 60,000 by 1986. 25X1

- Even skilled US workers in the oil sector have been affected. The trend is to replace US workers

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Foreign Workers in Saudi Arabia, 1984 [a]

	Thousand Persons	Share of Total Expatriate Labor Force *(percent)*
Total	**3,500**	**100**
Yemen Arab Republic	800	24
Pakistan	500	14
Egypt	428	12
Philippines	400	11
India	230	7
Sudan	158	5
Turkey	130	4
Jordan [b]	120	3
South Korea	104	3
Thailand	100	3
Syria	90	3
Bangladesh	50	1
Somalia	50	1
Indonesia	47	1
Lebanon	47	1
Sri Lanka	45	1
Ethiopia	45	1
United States	42	1
United Kingdom	25	1
Other	89	3

[a] Estimated.
[b] Including Palestinians.

with British and other Western personnel who are willing to work for lower pay, travel without families, and have lower transportation costs. According to the US Consulate in Dhahran, the number of US workers and dependents in the Eastern Province fell by 5,000 in 1983-84.

Bangladesh, Sri Lanka, and India—generally lower-wage countries—have benefited:

- The number of Bangladeshi workers going to Saudi Arabia increased from about 6,500 in 1979 to over 15,000 per year for the first half of 1984. Worker remittances from all Bangladeshi abroad were $592 million in FY 1983/84.
- The US Embassy in Colombo believes the number of Sri Lankan workers going to Saudi Arabia considerably exceeds the official estimate of 25,000 per year. Worker remittances from all Sri Lankans abroad were $290 million in 1983 and were second only to tea as a source of foreign exchange.
- India, despite limited success recently in winning construction and building maintenance contracts, still had 230,000 workers in Saudi Arabia in 1984. The numbers are small relative to the total Indian labor force but worker remittances are important for a few regions and provide New Delhi substantial foreign exchange earnings.

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Although worker remittances provide an important source of foreign exchange earnings and employment for many LDCs, the impact of returning workers from Saudi Arabia has probably been limited thus far. Pakistan, for example, has blamed declining worker remittances as the major factor in the scrapping of its five-year plan and the subsequent lower projection of economic growth. Saudi losses undoubtedly contributed but domestic banking and exchange rate policies and the strength of the dollar also hurt total remittances. The effect of returnees on domestic unemployment in these countries is also muted because the numbers are small compared with the total work force. Moreover, the returnees typically have accumulated savings that ameliorate their economic and social problems. 25X1

25X1

Outlook

In the near term, declining oil revenues and Riyadh's continuing efforts toward Saudi-ization will merely serve to hold down the size of the expatriate labor force. Nevertheless, Saudi Arabia will continue to rely on large numbers of foreign workers to support the country's recently achieved high standard of living. For 1985 most expatriate job losses will result from the completion or cancellation of construction projects. 25X1

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Although the Fourth Five-Year Plan (1985-89) includes a commitment to reduce expatriate workers by more than half a million, we judge Riyadh realizes it cannot meet this goal. Saudi-ization cannot proceed as quickly as Riyadh would like because productivity would suffer in those institutions—such as the government and ARAMCO—where newly educated Saudis seek work. Moreover, there simply will not be enough Saudis completing degrees in higher education to fill the demand for technical, professional, and managerial positions. [redacted] 25X1

The long-term prospects for Saudi-ization are somewhat better. Nearly 60 percent of the Saudi population is under 16, and many will be seeking jobs in the decade. In addition, Riyadh's efforts to develop education opportunities will eventually reap benefits. Although efforts to encourage private industry to use more capital-intensive methods of production have had limited success to date, such capital-intensive industries as petrochemicals or refineries hold some promise of reducing the demand for foreign labor. [redacted] 25X1

Saudi Arabia will continue to be vigilant for evidence of subversive threats by the expatriate community. Of most concern are the 100,000 Palestinians, and Muslim fundamentalists—especially Shia—from other countries. Still, the Embassy believes there is no effective cooperation between expatriate workers and domestic dissidents, and expatriates acting alone appear unable to threaten the regime. [redacted] 25X1

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Briefs

Energy

Venezuela Fears US Oil import Restrictions

[redacted]

Proposals by US refiners for US limits on oil imports are raising fears in Venezuela about protectionism and starting talk of retaliation. Venezuela is the second-largest supplier of oil to the United States, and, according to the US Embassy, there is growing concern in Caracas over the potential of higher US tariffs and quotas to cut its oil revenue—80 percent of product exports go to the United States. The Lusinchi administration, already upset by the prospect of quotas and countervailing duties on steel, believes that any restrictions on oil products would harm its ability to repay debt and finance capital goods imports. [redacted] some influential Venezuelan groups would urge retaliation against US goods and, at the extreme, restricting debt service payments if oil export earnings fall sharply. [redacted]

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[redacted]

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Syrian Oil Developments

[redacted]

A Syrian delegation will travel to Iran soon to try to work out a new oil agreement to replace the one that ended last month. Iran probably will again provide 20,000 b/d of free oil and 120,000 b/d at discounted prices. The negotiations are likely to be difficult because of Syrian delays in paying for last year's oil. In addition, Syria is scheduled to start paying $20 million per month on 31 May for postponed oil debts from the 1983-84 contract. To ease their financial problems, the Syrians are trying to have the free oil shipped immediately, but the Iranians insist that the agreement first be approved by their Consultive Assembly where it will probably face problems. [redacted] 25X1 25X1

Domestically, Syria recently signed an agreement forming a joint-venture, Al Furat Petroleum, that will be responsible for production at the newly discovered Thayyem field. Syria will hold 51 percent of the company, with its foreign partners—Shell USA, Shell International, and Deminex—holding the remainder. This opens the way for the construction of a pipeline from the field and commercial oil sales. [redacted] 25X1

International Finance

Chilean Interest Moratorium Looms

[redacted]

Chile is continuing to pay interest on its foreign debt, even as payments pressures mount and talks on debt renegotiation remain stalled. A near halt to new credit and a 25-percent decline in the first-quarter trade surplus have forced Santiago to draw down reserves. The US Embassy reports that debt talks are deadlocked because Chilean demands for $1 billion in new lending far exceed the $700 million that bankers are willing to provide. Should negotiations remain deadlocked through the summer, Chile will face an increasingly serious cash shortage, and the estimated $1.4 billion reserve cushion will soon be exhausted. Santiago may react by reducing or stopping interest payments. If a moratorium is imposed, it is not likely to be prolonged because the bankers will probably reach a compromise with Santiago. [redacted] 25X1 25X1

Mauritanian Debt Relief

[redacted]

Nouackchott easily reached agreement with Paris Club members to reschedule nearly $75 million in arrears and debt service obligations payable through March 1985. Repayment is spread over nine and eight years, respectively, with four years' grace. Paris Club members, however, hold less than one-fifth of outstanding arrears—the bulk is owed to Arab states. Eight of these countries also have agreed to extend terms similar to the the Paris Club package. This relief provides sorely needed breathing room to the financially strapped Taya regime that faces bleak economic prospects again this year. [redacted] 25X1 25X1

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Global and Regional Developments

EC Telecommunications Venture

The EC is inviting West European and foreign firms, including US companies, to participate in the preliminary phase of its RACE program—Research and Development in Advanced Communications Technologies for Europe. RACE is a 10-year $400 million joint government-industry program to help integrate West European telecommunications systems into one network and to advance telecommunications technology. The preliminary phase—which the EC Council is expected to approve in June—will last two years and cost approximately $30 million, with half the funding coming from the EC and half from private industry. EC leaders fear that fragmented West European markets in telecommunications and weakness in microelectronics and computers put them at a disadvantage in telecommunications technology. 25X1

25X1

Moroccan-French Grain Dealings

Morocco's serious cereal shortfall has been relieved by the sale of about 1.2 million metric tons of French wheat. Over 650,000 tons is already scheduled for delivery with the balance available after 1 August. Moreover, Paris has pledged to seek EC approval to sell as much as 150,000 tons of additional wheat to Morocco. These contracts, if fully utilized, will cover Morocco's wheat import requirement for 1985 and restore Paris as Morocco's primary grain supplier. The French probably view this as an investment in the future of the region and a means of recovering ground lost to the United States since Mitterrand's election. Hassan, on the other hand, has defused a potentially disruptive grain problem while emphasizing to Washington and the Moroccan public that he still has reliable friends abroad. 25X1

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New Steel Techonology Nears Commercial Use

South Africa's largest steel company, ISCOR Ltd., has announced plans for a 300,000-metric-ton-per-year direct iron smelting plant with startup scheduled in 1987-88—the first commercial use of this innovative steel-making technology. The plant will use the KR process developed by Korf Engineering of West Germany and tested since 1982 at its pilot plant in Kehl. According to press reports, the KR unit will be installed at ISCOR's Pretoria works as the first step in replacing the mill's old coke ovens and blast furnaces. We estimate the cost of the planned KR smelter at $60-70 million, about half the cost of comparable blast-furnace-coke oven capacity. Moreover, the new process could cut operating costs 10 to 15 percent below those of a state-of-the-art blast furnace and coking plant. In addition to the ISCOR deal, Korf and its Austrian parent, Voest-Alpine, are negotiating on KR units with steel companies in India, Turkey, East Germany, and the United States. 25X1

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National Developments

25X6

Developed Countries

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Spain and Portugal To Reduce Bilateral Trade Restrictions

As part of their accession arrangements with the EC, Spain and Portugal have settled on terms for reducing trade barriers—and increasing fishing restrictions—during the transition to EC membership. Lisbon won Madrid's agreement to mutually lower tariffs on manufactured goods over a seven-year period and to open up agricultural trade over a 10-year period according to the same formulas that will govern trade with the Community. The result will be to shield Portugal's backward farm sector from Spanish produce and provide Portuguese exporters greater access to Spain's highly protected market. Nonetheless, Spain probably will widen its trade surplus with Portugal because the Spanish agricultural and industrial sectors are generally more competitive. Some of Portugal's most important exports—textiles, cork, tomato paste, and petrochemicals—will be restrained by quotas. Lisbon will permit Spain only 111 fishing licenses in its 12- to 200-mile fishing zone and 10 licenses within the 12-mile limit annually during the first 10 years—a previous agreement, which Lisbon had unilaterally suspended, licensed about 200 Spanish fishing vessels.

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Canadian Banking Deregulation Proposed

The Mulroney government last month presented a parliamentary discussion paper on the deregulation of Canadian financial institutions, which aims at increasing competition in financial services. Under the proposed regulations, nonbank financial institutions could set up new banks by first creating special, federally regulated holding companies. Canadian-owned holding companies would be allowed to acquire up to 100-percent ownership in the new banks, while foreign holding companies and other invertors would be subject to a 10-percent limit. Some operations of firms controlled by a holding company could be merged, but each firm would have to remain a separate entity. The new rules would raise solvency requirements, ban self-dealing, and increase the power of regulatory agencies. The government probably will press for enactment of the proposals in September.

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Less Developed Countries

Mexican Financial Troubles Mount

Increasing external payments problems are undercutting Mexico's implementation of its IMF economic program and dimming prospects for self-sustaining growth. Mexico's trade surplus dropped by nearly half—to $1.5 billion in

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January and February 1985—compared with the corresponding 1984 period. This reflects the overvalued peso and soft oil market that cut exports 14 percent and a rebounding economy that boosted imports 43 percent. Capital flight accelerated early in the year, contributing to a $2 billion drop in international reserves, according to the Mexican financial press. For all of 1984 capital flight totaled only $3 billion. [redacted] 25X1

Mexico has promised the IMF it will limit domestic spending and foreign borrowing this year. The government's continued use of stimulative economic policies, however, indicates that 1985 will be another year of high budget deficits and inflation. President de la Madrid probably will not change these policies until at least after the July elections. For example, we believe he will postpone official devaluation until then. Deteriorating external accounts probably will force Mexico City to seek new credits beyond its 1985 net external borrowing limit of $1 billion, even though bankers appear reluctant to provide much new money. [redacted] 25X1

25X1

Brazil's Economic Team

[redacted]

[redacted] 25X1 Finance Minister Dornelles, 25X1 Neves's closest adviser, advocates bringing down inflation through cutting the public-sector deficit. He has already ordered a 10-percent reduction in public spending and a freeze on state bank lending. The US Embassy reports these measures have contributed to increased infighting between Dornelles and Planning Minister Sayad, whose influence has increased under Sarney. Sayad appears more willing to subordinate inflation fighting to more expansionary policies and social spending. Meanwhile, Central Bank President Lemgruber, also a proponent of austerity, will continue to push for an IMF program, but he expects tough negotiations with the Fund over monetary, public deficit, and inflation targets. Sarney probably hopes that by keeping the original team he will demonstrate his commitment to Neves's stabilization policies, but we believe that personal rivalries and divergent views will adversely affect the pursuit of such objectives. [redacted] 25X1

Guatemala's Next Attempt at Austerity

[redacted]

The government has invited business and labor to participate in creating an alternative to the stabilization package recently withdrawn after coup rumors and strong private-sector opposition. The US Embassy reports that Central Bank officials believe the government will agree to cuts in spending to build private support for tax increases and tighter monetary policies. Government foreign exchange flows are inadequate to cover both debt service and essential imports, and petroleum shortages are likely by the end of May. Meanwhile, the US Embassy reports Guatemala's currency depreciated by nearly 35 percent in April. A new stabilization package is not likely to contain tax increases sufficient to correct the government's finances, but any narrowing of the deficit would improve the prospects for the civilian government scheduled 25X1

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to take office next January. A tax increase also would facilitate negotiations with the IMF and pave the way for badly needed economic assistance from international lenders and donors. In any event, Guatemala is likely to push for more US financial assistance. [redacted] 25X1

Tensions Over Tunisian Economic Problems

[redacted]

The government of President Bourguiba, plagued by a series of strikes during the past month, is trying to avert further unrest but probably will not be able to alleviate the underlying causes. Although Tunisia's largest union postponed a general strike planned for this week to avoid jeopardizing wage negotiations, 25X1 the US Embassy reports that many members resent previous concessions their leaders made to the government and would prefer to strike. The government arrested some union activists last week as a general warning to those who had planned to participate in the strike. Although significant concessions on wages would result in unacceptable budgetary deficits, Tunis might try to limit the strains by cutting back on extra food traditionally imported during the month of Ramadan, which begins on 22 May, and then increasing prices this summer. Ramadan is usually quiet, but price increases would probably cause new tensions. [redacted] 25X1

Moroccan Devaluation in Process

[redacted]

The Moroccan dirham has lost about 8.2 percent of its value against the US dollar over the past two weeks. This slide marks Rabat's attempt to realign the currency more closely with those of its major trade partners and to help ensure IMF approval of a new standby loan scheduled for mid-June. The devaluation—a word not used by the government—is being accomplished by reducing 25X1 the weight of the US dollar in the currency basket used by the Bank of Morocco to set its daily exchange rate. This process probably will continue until the IMF suggested 12-percent adjustment is made. Rabat has strongly resisted devaluation on the grounds that the cost of food imports will rise sharply while the impact on exports will be small. Nevertheless, the need to accommodate the IMF and show progress on economic stabilization before upcoming debt rescheduling talks with international creditors forced Morocco's hand. The more troubling issue of reducing expensive food subsidies, however, has yet to be addressed. [redacted] 25X1

Moroccan-Libyan Union on Track

[redacted]

Morocco's nine-month-old union with Libya gives every sign of moving forward. Trade figures show a 200-percent increase in Moroccan exports to 25X1 Libya last year and Moroccan officials project that trade between the two states probably will double again this year. [redacted] 25X1 25X1

25X1

[redacted] A cooperation agreement on scientific research and medicine is the latest favorable indicator. Both sides 25X1

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will continue to support the union as long as it effectively offsets Algeria's regional influence, Libya refrains from supplying the Polisario, and Qadhafi can tout the union as a foreign policy success in his dealings with other Arab and African states. [redacted] 25X1

Ghana Adheres to IMF Program

[redacted]

Ghana's recently announced 1985 budget substantially maintains the policies of its tough IMF-backed economic recovery program. The budget's provisions include a 6-percent devaluation, an increase in petroleum prices, and a budget deficit target of 2 percent of GDP. Resistance from radical leftists within the Rawlings government—who fiercely oppose the IMF guidelines—limited the size of the projected devaluation. Western economists view the outcome of Ghana's two-year-old IMF agreement as an important test case for IMF-sponsored reform in West Africa. [redacted] 25X1 25X1

Troubles in Algiers

[redacted]

Riots in the Casbah, the ghetto area of Algiers, are the most recent and violent expression of discontent over living standards in Algeria, according to the US Embassy. The collapse of an old building, killing at least one person, ignited protests against government foot-dragging on housing and other social services. Riot police moved quickly to put a lid on disturbances, and the government announced plans to relocate up to 10,000 people by July. The rapid pace of the government's response underscores concern over unemployment, urban overcrowding, and the spartan living standards of most Algerians. The suspicion that Islamic fundamentalist groups or Libyan-inspired agitators used legitimate housing complaints to advance their cause is of even greater concern. The large number arrested and government's plans to swiftly prosecute the ringleaders are intended to counter perceptions of weakness. [redacted] 25X1 25X1

Indonesian Economic Performance

[redacted]

Indonesia's 1984 economic performance was much stronger than expected, according to the [redacted] US Embassy. The economy grew 6.5 percent—compared with the 5 percent previously estimated by most observers—largely as a result of a 50-percent increase in LNG output and a record rice crop of 25.8 million metric tons. Indonesia trimmed the current account deficit to \$2.9 billion—from \$4.2 billion in 1983—largely by cutting imports and expanding nonoil exports; manufactured exports rose 15 percent. The government is projecting a current account deficit of \$3.4 billion this year as imports rise faster than exports; protectionist barriers in key markets have already slowed the growth of Indonesia's plywood and textile exports from the rapid pace of the past two years. Economic growth probably will slow to about 4 percent as the oil market remains soft and agricultural growth slackens after two boom years. [redacted] 25X1 25X1 25X1

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Communist

French Auto Maker Considering Investment in Vietnam

Citroen is talking to Hanoi about reopening its former automobile assembly plant in Ho Chi Minh City, The company last 25X1
month requested information on the condition of the plant and on Hanoi's receptivity to French investment. Citroen left Vietnam in the late 1970s when it was unable to come to terms with Hanoi on a joint venture. Citroen's request 25X1
may be in response to Hanoi's recent favorable statements on foreign investment as well as to a French Government policy encouraging private investment in Indochina. A decision to return to Vietnam would probably require substantial economic concessions from Hanoi, however, as Citroen is investigating the establishment of plants in a number of countries, including China, that show more economic promise. 25X1

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